MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee:  Finance, Facilities and Technology   Date of Meeting:   May 21, 2008

Agenda Item: FY2010-2011 Biennial Budget Planning Discussion

☐ Proposed Policy Change  ☐ Approvals Required by Policy  ☐ Other Approvals  ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda: Every other year, as part of the state’s operating budget process, the Minnesota State Colleges and Universities develops a biennial budget request. The request for the FY2010-2011 biennium is due to the Governor and the legislature in the fall of this year. This item will return for a first reading at the September meeting. The final reading of the request is scheduled for the November Board of Trustees meeting.

Scheduled Presenter(s): Judy Borgen, Associate Vice Chancellor for Budget
Karen Kedrowski, System Director for Budget

Outline of Key Points/Policy Issues: This report addresses the process of building links between the strategic plan and development of a FY2010-2011 biennial budget that support and furthers the policy directions and priority goals within the plan.

Background Information: Development of the system’s biennial budget is a collaborative process between the Board, the Chancellor, the Leadership Council and constituent groups.
BACKGROUND

Every other year, as part of the state’s operating budget process, the Minnesota State Colleges and Universities develops a biennial budget request. The request for the 2010-2011 biennium is due to the Governor and the legislature in the fall of this year. This report addresses the process of targeting the biennial operating budget request to activities that support and further the policy directions and priority goals within the Minnesota State Colleges and Universities strategic plan. This report also provides a brief overview of the process being used to formulate the request and the environment in which the request is being developed. Direction from the Board is sought to identify specific goals within the strategic directions and priorities to be emphasized in developing funding priorities for the 2010-2011 biennial operating budget request.

Strategic Outlook

In March 2008, the Board adopted its strategic plan for 2008-2012, Designing the Future, with the following four strategic directions:

1. Increase access and opportunity.
2. Promote and measure high-quality learning programs and services.
3. Provide programs and services that enhance the economic competitiveness of the state and its regions.
4. Innovate to meet current and future educational needs

The following five strategic priorities are included in the proposed 2009 action plan that is being finalized:

1. Reaching the Underrepresented
2. Science, Technology, Engineering, and Mathematics (STEM)
3. Tuition Study and Price of Attendance
4. Succession Planning
5. Workforce of the Future
The development of the biennial operating budget request will be guided by the strategic plan and action plan and tempered by the financial outlook of the State of Minnesota.

Financial Outlook for 2010-2011 Biennium

The state’s most recently released planning estimates for the 2010 and 2011 biennium show a structural shortfall of $1.086 billion. As specified in current law, projected spending does not include general inflation which would add an additional $1.04 billion to spending estimates for the next biennium assuming a 1.9 percent increase per year. The state economic outlook has a significant influence on the system’s economic future. Slightly more than half of the system’s general fund is supported by state appropriation. With a projected $1.086 deficit in the 2010 and 2011 biennium before consideration of cost inflation, the 2009 legislative session will be a difficult one. The November 2008 and February 2009 revenue forecasts will set the stage for deliberations.

The financial outlook for the system also shows a structural shortfall for the 2010 and 2011 biennium. The fiscal year 2009 general operating fund expenses are projected to be $1.48 billion. When factoring in the state Department of Finance’s inflation assumption of 1.9 percent each year, the system is projecting an $84.6 million shortfall over the next biennium before considering any additional state appropriation or tuition revenues. To solve the shortfall with tuition would require an average system increase of slightly more than 4 percent each year.

As the operating budget request is developed over the next few months, the Chancellor, the presidents, and the Board will need to consider the state and system’s economic outlook, the impact of the current labor settlements, planning estimates for the next round of labor negotiations, and the role of tuition in the budget request.

Process to Develop the Biennial Operating Budget Request

It is important that development of the system’s biennial budget be a collaborative process between the Board, the Leadership Council, and constituent groups. The Chancellor is committed to seeking input, during the next few months, from the system’s stakeholders regarding the content of the operating budget request. Staff will have conversations with stakeholders at scheduled meet and discuss sessions with students, meet and confer sessions with bargaining groups, Leadership Council, and other meetings with various committees. In addition, presidents will have discussions at their respective colleges or universities to gather further input into the biennial operating budget content.

This development process will allow for broader input from the system stakeholders. It is a departure from the process previously utilized. In past years from one to multiple committees, comprised of representatives of stakeholder groups, were formed to develop the content of the operating budget request. The end result was a Board supported budget request. Although the Board had an approved request, various constituent groups may have identified other priority areas that serve their specific interests and lobbied the legislature for funding.
Discussions with stakeholders are centered on a budget request structured as follows:

- Strengthen support for colleges and universities
- Development of innovation strategies
- Design of a long-term tuition strategy

Based on the input from the stakeholders, the Chancellor will develop and release his recommendation for the 2010 and 2011 biennial operating budget request to the Board in September 2008. A public hearing will be held prior to when the Board acts on the budget recommendation in November 2008.

With the exception of a large base reduction during the 2004 and 2005 biennium, the legislature has funded from 34 percent to 86 percent of the system’s biennial operating budget requests. Table 1 shows the success of the system in receiving new operating budget resources from the legislature.

Table 1

<table>
<thead>
<tr>
<th>Minnesota State Colleges and Universities</th>
<th>Biennial Budget Request Versus Funded</th>
<th>Fiscal Years 1996 to 2009</th>
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<tbody>
<tr>
<td>($ in thousands)</td>
<td>Requested</td>
<td>Funded</td>
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<tr>
<td>Fiscal Years</td>
<td></td>
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<tr>
<td>1996/1997</td>
<td>$115,684</td>
<td>$42,465</td>
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<tr>
<td>1997 Supplemental</td>
<td>$29,697</td>
<td>$4,980</td>
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<tr>
<td>1998/1999</td>
<td>$127,947</td>
<td>$110,506</td>
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<tr>
<td>1999 Supplemental</td>
<td>$42,000</td>
<td>$36,000</td>
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<tr>
<td>2000/2001</td>
<td>$253,000</td>
<td>$104,424</td>
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<tr>
<td>2001 Supplemental</td>
<td>$21,600</td>
<td>$13,180</td>
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<tr>
<td>2002/2003</td>
<td>$310,998</td>
<td>$105,000</td>
</tr>
<tr>
<td>2003 Supplemental</td>
<td>$0</td>
<td>($22,692)</td>
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<tr>
<td>2004/2005</td>
<td>$107,600</td>
<td>($189,000)</td>
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<tr>
<td>2006/2007</td>
<td>$197,300</td>
<td>$107,500</td>
</tr>
<tr>
<td>2008/2009</td>
<td>$177,000</td>
<td>$151,792</td>
</tr>
<tr>
<td>2009 Supplemental</td>
<td>$0</td>
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With limited resources and competing legislative priorities, the system will need to make a strong case for maintaining its current base funds as well as the need for new resources. The system will need to be prepared to explain how it is spending the information technology and underserved/underrepresented initiative funds for fiscal years 2008 and 2009. It will be critical to keep in the forefront of the biennial operating budget discussions the following:

- Strategic plan
- Economic outlook of the state (recession/low revenue outlook)
- Competition for available resources with limited revenue
- Labor market critical – the System is a key player

**Timeline**

December 2007-August 2008  Discussions with stakeholders

September 2008  Chancellor recommends to the Board of Trustees the 2010 and 2011 Biennial Operating Budget Request (first reading)

October 2008  Public hearing on the 2010 and 2011 Biennial Operating Budget Request

November 2008  Board of Trustees approves 2010 and 2011 Biennial Operating Budget Request for submission to the Commissioner of Finance

**Summary**

Key recurring issues for the Board’s consideration include how compensation and operating cost inflationary estimates are to be reflected in the 2010 and 2011 biennial budget request, the role of tuition in the system’s financing package, initiatives to advance the strategic plan, use of existing base resources to further the system goals and objectives, and the size of the budget request package that will move forward.

*Date Presented to the Board: May 21, 2008*